

Tax Day 2018: DC Can Use Tax Policy to Fight Inequality

By Hannah Kohanzadeh

Tax Day is here! On this Tax Day, it's important to remember that thriving communities are made possible by taxes. Taxes support the roads we drive on, the public transportation we use to get around town, the schools we send our children to, the libraries and parks we enjoy with our friends and family, and so much more.

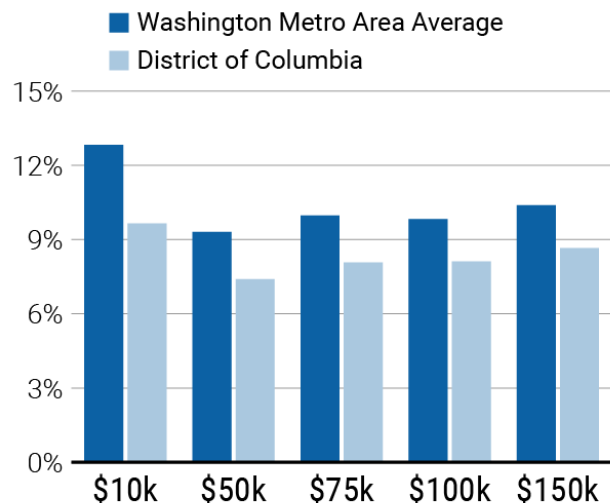
In December 2017, Congress passed the [Tax Cuts and Jobs Act \(TCJA\)](#), which means that the tax landscape in the District is changing. Some 60 percent of the benefits reaped from the TCJA will go to [the top 5 percent of District taxpayers](#), increasing DC's already high [income inequality](#). Yet, the TCJA also presents an opportunity for the District to collect funds the federal government is losing in order to make bolder investments in our community to [end homelessness](#), [address our affordable housing challenges](#), [provide a quality education for every student](#), and [ensure equitable access to health care](#).

In honor of Tax Day, let's explore the District's taxes.

Taxes on DC Residents are Lowest in the Region: DC residents at a wide range of income levels—from \$25,000 to \$150,000—pay less than residents in neighboring jurisdictions, according to DC's Chief Financial Officer. A family of three with an income of \$100,000 has combined annual DC taxes almost \$1,500 lower than in Fairfax County, over \$1,600 lower than in Arlington County, and over \$2,000 lower than in Prince George's County or Montgomery County.¹

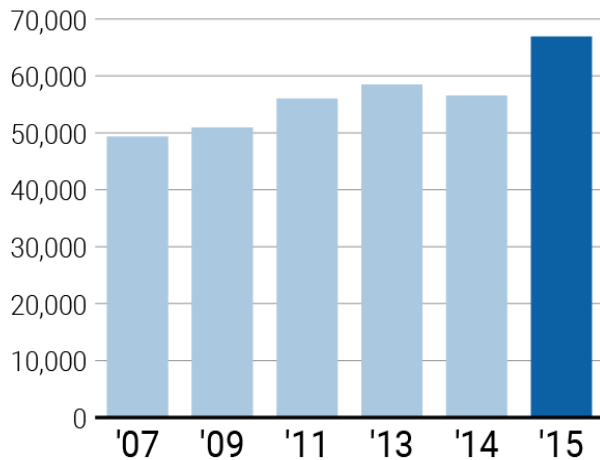
Overall Tax Burden Lower in the District Than Metro Area

Combined income, property, sales, and auto taxes as a share of income for a family of three, 2016.



Note: Figures represent the hypothetical tax burden for a family of three at each income level. For methodology and assumptions, see source report.
Source: DC Office of the Chief Financial Officer, "A Comparison of Tax Rates and Burdens in the Washington Metropolitan Area," 2016.

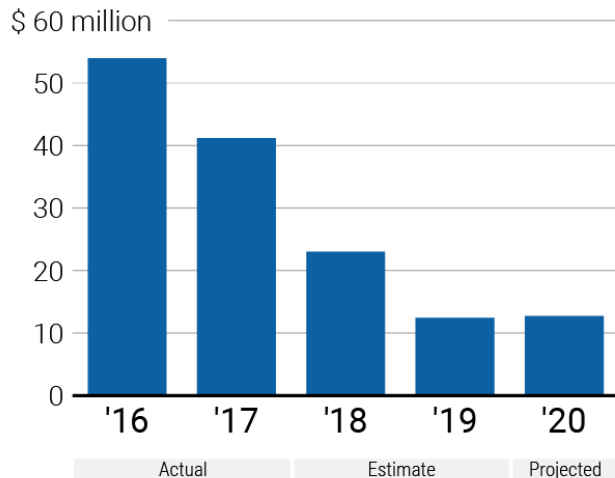
Over 10,000 More Tax Filers Claimed the DC EITC Thanks to 2015 Expansion



Source: DC Office of Revenue Analysis.

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DC's Already-Declining Estate Tax Revenues Will Fall Steeply If Link to Federal Tax Code is Maintained



Source: Fiscal Year 2018-19 Budget & Financial Plans, Table 3-3.

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The District's Earned Income Tax Credit

Successfully Reduces Poverty: DC's recent efforts to boost the incomes of low-wage workers through its [Earned Income Tax Credit \(EITC\)](#) are working. Over 10,000 more DC working families and individuals claimed the DC EITC in tax year 2015, thanks to an expansion targeted to workers without children in their home. These workers previously qualified for only modest benefits. The expansion, recommended by the DC Tax Revision Commission and approved by the DC Council in 2014, put an additional \$8.3 million in the pockets of the DC workers with low earnings in 2015. The DC credit is now in the top tier of state-level EITCs in terms of its size. It boosts incomes by as much as \$2,500 for working families with children and \$500 for workers without children in the home. The EITC helps thousands of residents working hard to make ends meet with low wages—the majority of whom are people of color.

DC Should Move Quickly to Fix Our Estate Tax:

DC's estate tax, our most progressive revenue source, has been substantially eroded over the past several years, as DC has phased in a number of tax cuts through the so-called "tax-cut triggers," including an increase in the portion of large estates that can be passed on to heirs completely tax free. This "exemption" amount went up from \$1 million to \$2 million in tax year 2017. Beginning this January, the exemption was set to automatically match the federal exemption, which was increased dramatically by the George W. Bush era tax cuts and subsequent legislation, from \$675,000 in 2001 to \$5.5 million last year. But DC policymakers didn't anticipate that Congress would *double* the estate tax exemption this year, to more than \$11 million. DC estate tax revenue is expected to fall to \$12.5 million in fiscal year (FY) 2019, compared to actual collections of \$41 million in FY 2017—a loss of \$28.5 million in just two years.² DC Council should act now to decouple our estate tax from the federal tax rules to sustain our most progressive revenue source.

¹ [OCFO, “Tax rates and Tax Burdens 2016,”](#) Table 5, 17.

² Local estate tax revenues are difficult to predict perfectly and can fluctuate from year to year, but these years reflect significant legislative changes.